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Global Views

Weekly commentary on economic and financial market developments

June 29, 2012

Global Views **is available on: www.scotiabank.com, Bloomberg at SCOE and Reuters at SM1C**

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Central Banks & Global Data Risk To Follow The Summit's Aftermath

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A10.**

Having spent the past week travelling within Asia to visit Scotiabank clients, the vibrancy of the region was peppered with anecdotes of a broad based slowdown that is occurring in ways that are possibly yet to be fully picked up in the data. This is supported by stimulus debates from Thailand to South Korea. Against this backdrop, Asian markets hold the potential to kick off a busy start to the week, but will then shift to largely observer status over the rest of the week. China releases the state version of the manufacturing index on Saturday evening (ET) in case you needed something around which to plan your evening. It is expected to soften, and to be followed by a weak private sector version on Monday that is already in contraction. Recall that while the private (contracting) and state (mildly expanding) PMIs are throwing off mixed signals, the private version samples more smaller firms and more export-oriented firms in the coastal cities which may help to explain the divergence. Japan also jumps into the manufacturing fray with the Tankan survey on Sunday evening ET. Australia poses regional market risk with an expected RBA rate hold and retail sales that are both due out on Tuesday.

European markets will be fixated on the aftermath of the EU Summit and how it plays out in key central bank decisions. The ECB is expected to cut by 25-50bps on Thursday, and the BoE is expected to increase the scale of its asset purchase program by £50B to £375B. Neither are shoe-ins, and are at least partly contingent upon the Summit's sustained market influences. Sweden's Riksbank is expected to keep pausing at 1.5%.

At issue is how to play the in-between prospects of loose objectives surrounding long-run structural reforms alongside the material steps that have already been announced. These include dropping senior subordination, direct recapitalization of banks by the EFSF after a single supervisor has been established, and the use of tools to intervene in primary and secondary markets which itself is anything but new.

It should already be clearer to many that the EFSF shouldn't buy debt on the secondary market as the ECB has already tried that and lost. It did so directly, and indirectly through the LTRO. Proceeds issued to markets through the LTRO are being hoarded at exceptional levels and our view throughout was that the 3-year LTRO proceeds would make things worse by encouraging shortened duration across government issuers and bank buyers — which is part of the awkward pact that got us into this mess in the first place. The EFSF could buy primary market issuance, but that would require the beneficiaries to submit their countries to increased EU scrutiny and regular missions which may be unappealing except as a last ditch plea. An extra concern is whether the EFSF/ESM apparatus is big enough to buy material amounts of debt while it also capitalizes banks as in Spain's case. That's doubtful, which then conjures up schemes to leverage the facility higher yet — and which have also not worked in practice over the past year. In all, Europe continues to debate pseudo-sophist market solutions when there aren't any that can paper over the enormous problem posed by deep internal macro imbalances reflected within current and capital accounts, and high disparities in terms of productivity-adjusted real wages. In the midst of it all, Germany issues bonds on Wednesday, and will be followed by bond issues from Spain and France on Thursday.

European data risk will also be elevated. After soft readings on the German economy of late, markets will be closely watching that country's factory data. German factory orders (Thursday) fell 1.9% m/m in April and are expected to be flat in May. Similarly, German industrial production (Friday) slid by 2.2% m/m in April and is expected to rise only marginally in May. Manufacturing data remains a global theme for the week with the UK's PMI expected to remain in contraction when it is updated on Monday. Key EC releases will include the unemployment rate that stands at 11.1% by the last reading, and retail trade that fell hard in April and which is expected to rise only marginally in May. Also worth watching will be planned post-Summit meetings and speeches involving each of Merkel, Monti, and Hollande, as well as the European Commission's release of its quarterly report on the Euro Area on Friday.

US markets will offer high data risk for world markets from beginning to end next week. It's Steinbeck's dueling brothers who will fight it out for maximum attention starting with ISM on Monday and book-ending the week

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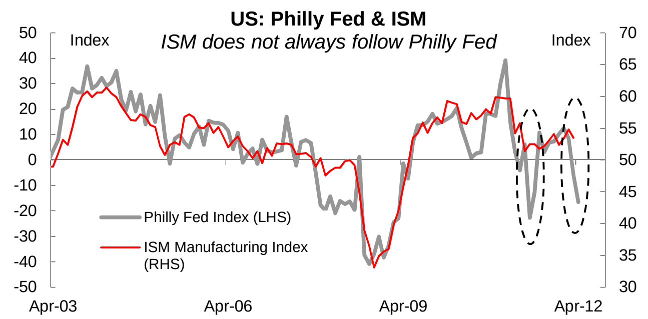
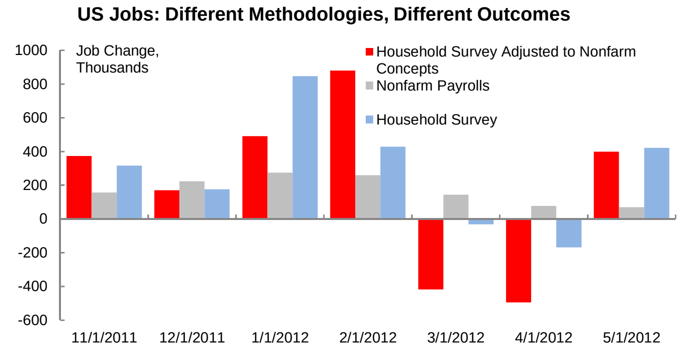
with nonfarm payrolls on Friday and the July 4 break in the middle. ISM is highly uncertain following the unexpected collapse in the Philly Fed's regional manufacturing diffusion index. Normally ISM-manufacturing and the Philly Fed are closely related to one another such that a drop in Philly would often portend ISM following. That's not always the case, however, because sectors like autos are under-represented in the Philly Fed. A softer ISM reading is expected that would further the concerns about a synchronous slowdown in global manufacturing conditions, but either watch the tail risk or bet on more fun outcomes like the Euro Cup. Factory orders follow on Tuesday and consensus is expecting another small drop. Then it's jobs that take over for the rest of the week. ADP private payrolls (Thursday) slipped to 133k in May and overstated themselves as a nonfarm payrolls preview as the latter then went on to post a disappointing print of 69k for the same month. ADP covers only private payrolls and has a different reference period to that of nonfarm, but such head fakes are commonplace partly given a wider 95% confidence interval for ADP than that of nonfarm. What we also don't know with much clarity is where distorted seasonal adjustment factors may take us from here in the two surveys. We argued that they would drive job growth lower into April and May, but how the seasonal distortions work in June is more uncertain. Either way, persistently high initial jobless claims that stayed around the 390k range throughout June after a similar performance in May do not bode well for job figures next week. Fed speak will be relatively light with only San Francisco Fed President John Williams (voting) on Monday's docket. The IMF will release its outlook for the US economy on July 3. Mexican Federal and regional elections happen on Sunday.



Source: Scotia Economics, ISM, Fed



Source: Scotia Economics, BLS, ADP

Canadian markets will start the week closed on Monday for the national Canada Day holiday that unofficially kicks off the short Canadian summer. They will then spend much of the rest of the week catching up to global events and then continuing to be driven by developments elsewhere at least until Friday when the June jobs report lands. After heaping on the strongest back-to-back monthly gains in March and April since 1981, job growth fell back to 7.7k in May and only because of a rise in self-reported self-employment within the household survey. Strip that effect out, and the country lost jobs which leaves us with a conundrum. Were the two solid months a fluke? Weakness from last Fall onward and then renewed weakness in May would suggest as much and perhaps owe itself to a variety of distorting influences to job growth that we've noted in the past. What also mitigates the enthusiasm into Spring is the fact that two months worth of strong job growth pale in comparison to the fact that inflation-adjusted wage growth is non-existent in Canada such that 17 million workers are, on average, earning nothing extra beyond increases in the cost of living. Two of the reasons for this might be continued job market slack with an unemployment rate of 7.3% that is higher yet after counting part-time workers who would rather be working full time, and public sector wage moderation as some come under closer fiscal scrutiny. The debate will further itself with the June jobs report for which consensus is playing it safe with a call of just above no job growth in June, but this is the usual trend-following guessing game in the absence of higher-frequency US gauges like weekly jobless claims.

The final risk we would point to is political. US sanctions on importers of Iranian oil are set to enter into effect officially on July 1. While markets seem to have priced this in, supply chains have adjusted, and exemptions have been granted to 20 countries, there is no way to know how the implementation will play out.

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EU Summit Lifts Commodity Prices & 'Riskier' Assets, After Recent Correction

- **Oil prices — of critical importance to Canada — rally today, but Saudi Arabia needs to curb its over-production.**

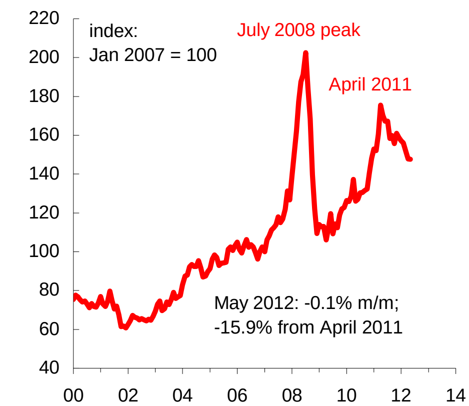
Scotiabank's Commodity Price Index — a U.S. dollar-based Index of key Canadian commodity exports — edged down by 0.1% in May and likely dropped in June, the seventh consecutive monthly decline. Concern over slowing global growth and little progress by the eurozone in dealing with its financial challenges have pulled down 'riskier' assets such as commodities and equities. Disappointment that the Fed did not move to support the U.S. economy through more aggressive monetary policy easing — via QE3 rather than only a partial extension of the 'Twist' operation — triggered a further correction in oil and gold prices, after the June 19-20 FOMC meeting. As of May, Scotiabank's Commodity Price Index had fallen 15.9% below its April 2011 near-term peak — just prior to the advent of concern over the Eurozone outlook — a correction still much less than the 46% slide in the second half of 2008.

However, oil, gold and base metal prices have rallied sharply today, with the financial markets reassured by news from the EU Summit intended to shore up the European financial system. Among other measures, the European Commission will propose a single bank supervisor, after which eurozone banks will have direct access to the European Stability Mechanism (ESM).

WTI oil prices have rebounded back over US$82 today (from as low as US$77 yesterday) and Brent oil to more than US$95 (up US$4) — welcome news for Canada's 'oil patch'. Oil prices in Western Canada had been approaching a 'tipping point' at which drilling activity would have been curtailed. Western Canadian Select oil prices — bitumen blended with dilbit and synbit — and used as an indicator of heavy oil prices in the Scotiabank Commodity Price Index — dropped to about US$66 in June, after rallying in May to US$75. While many senior SAGD bitumen producers in the Alberta oil sands can operate profitably with prices as low as US$45, the recent drop in oil prices — together with a sharp correction in equity markets — has reduced funding for junior oil & gas producers. Until recently, strong oil prices had offset weak natural gas prices for gas-weighted juniors, underpinning their capital spending — now being curtailed.

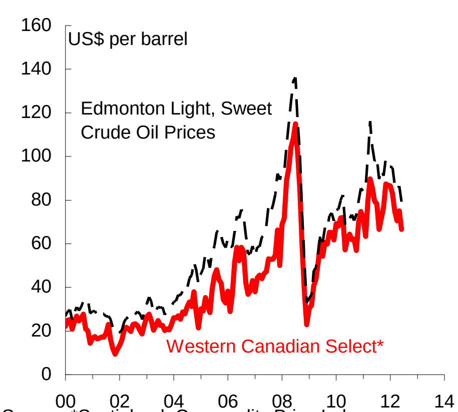
While we continue to assume a steadying in oil prices in the third quarter — allowing WTI to average US$90 in 2012 and US$95 in 2013 — these forecasts depend heavily on some pull-back in Saudi Arabia's and OPEC's recent over-production. The Kingdom deliberately produced above the 'call' for OPEC crude in 2012:H1 to offset the loss of Iranian oil due to sanctions. The oil industry is vitally important to Canada, generating net exports of $55 billion YTD and direct employment of 250,000 in exploration & production alone.

Scotiabank Commodity Price Index



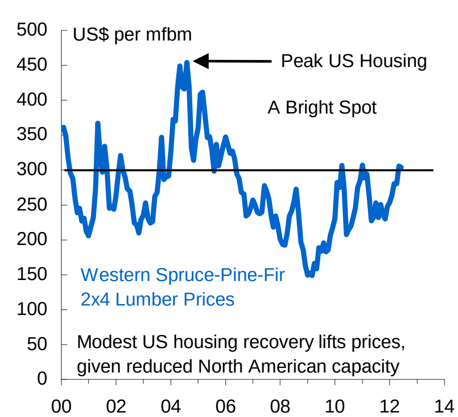
Source: Scotiabank Commodity Price Index.

Western Canada's Oil Prices



Source: *Scotiabank Commodity Price Index, TMX/Shorcan Energy Brokers. Data to June/12.

Lumber & OSB Prices Rally



Source: Scotiabank Commodity Price Index.

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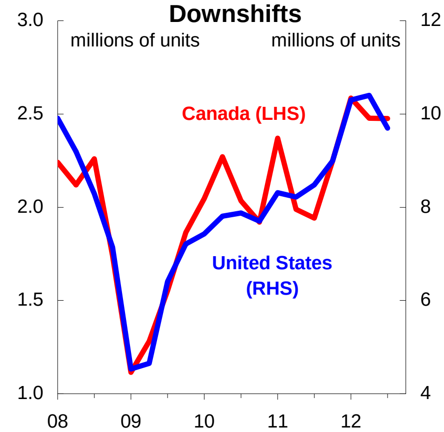
Third-Quarter U.S. Vehicle Production Downshifts

- **Slowdown reflects inventory normalization, but a pick-up is likely before year-end.**

The auto industry has been a growth leader across North America in the first half of 2012, with stronger-than-expected car and light truck sales and the restocking of depleted inventories by Japanese automakers buoying production. However, with inventories back at normal levels — around 60 days' supply — vehicle assemblies are set to soften in the United States between July and September. This slowdown will add further downward pressure to economic activity, which is already being weighed down by the re-emergence of the European debt crisis on front page headlines, the ongoing U.S. fiscal and political uncertainty and a slowdown in global manufacturing orders.

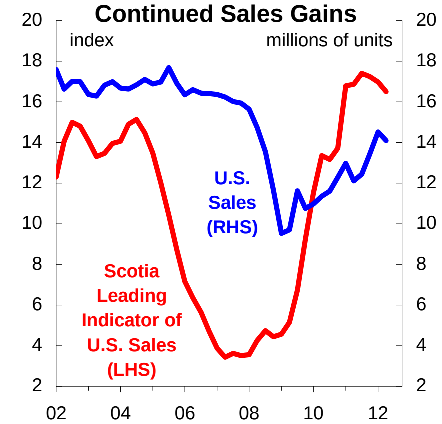
U.S. Vehicle Production Downshifts



Source: Scotia Economics.

Vehicle production across North America jumped 23% y/y in the five months through May, led by a 27% surge in the United States. In fact, U.S. output climbed to an annualized 10.3 million units in the opening months of 2012 — the highest level since late 2007. This sharp increase enabled the auto sector to account for more than two-thirds of the 1.9% increase in U.S. economic growth in the first quarter. The sector has also made an outsized contribution to economic activity in Canada. Further production gains have occurred in the second quarter, lifting assemblies across North America (Canada, U.S. and Mexico) to an annualized 15.9 million units, up from a full-year 2011 total of 13.3 million. However, despite recent announcements of reduced summer downtime by several automakers due to strong demand, assemblies across North America are scheduled to ease to 15.6 million in the third quarter, temporarily halting the industry's robust contribution to economic growth. In fact, we estimate that the summer lull in vehicle assemblies will have the largest negative impact on U.S. economic activity since early 2009, when the global economy was still in free-fall. In Canada, third-quarter vehicle production will be largely flat, supported by rising output of the Honda CR-V in Alliston, Ontario. In contrast, assemblies in Mexico are scheduled to advance further, as Japanese automakers continue to expand their facilities in the most southern NAFTA member.

Leading Indicators Point To Continued Sales Gains



Source: Scotia Economics.

Despite the industry's temporary setback, fundamentals remain supportive of further advances in both vehicle sales and production. In particular, leading indicators of the U.S. auto sector point to ongoing gains for an extended period. While the Scotiabank Leading Indicator of U.S. Vehicle Sales has edged down from its peak in mid-2011, the index remains at one of the highest levels on record, pointing to further improvement ahead. In addition, auto affordability remains very high by historical standards, with low interest rates and moderate price increases, as well as ongoing employment gains contributing to the upward trend. Replacement demand will continue to be the key driver, as the average age of the U.S. fleet is a record 11 years. Automakers have also recently increased incentives in an attempt to ensure that the recent downdraft in consumer confidence does not undercut vehicle demand.

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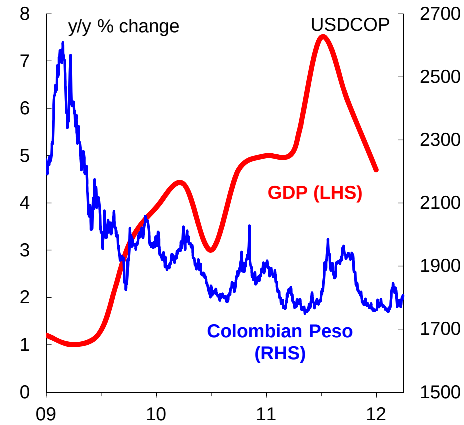
Colombia Maintains A Solid Economic Outlook

- **The economy shows signs of moderation in the first quarter.**

GDP Growth and Currency



Source: Bloomberg.

The economic outlook for Colombia remains favourable; however, the first quarter GDP report confirmed a moderate deceleration in the pace of expansion. After the 5.9% expansion registered in 2011, the Colombian economy grew by 4.7% y/y in the first three months of the year, slightly below the 5.0% gain recorded a year ago. Domestic demand, the main contributor to growth, advanced by 5.9% y/y, supported by improving employment conditions (unemployment rate at 10.9%) and strong credit activity. However, exports were negatively impacted by slower global demand, decelerating to 6.3% y/y from 10% y/y in the first quarter of 2011. The mining and energy sectors remain the key drivers of the economy, while construction has been decelerating in recent months. We maintain our view that the economy will expand by 5.0% in 2012.

In response to strong local consumption and sensitive to ongoing credit growth, the authorities withdrew monetary stimulus by increasing the administered interest rate by a total of 50 basis points (bps) at the beginning of the year to the current level of 5.25%. In recent months, headline inflation has stabilized at around 3.5% y/y. With commodity prices decreasing and persistent European debt stress, and in response to recent measures adopted by the Ministry of Finance to increase reserve requirements to curve consumption loans, we expect the reference rate to be maintained at its current level for the rest of the year.

The external sector remains vibrant due to strong demand for Colombian goods (such as crude oil, coffee and coal); however, recent data suggest a moderation in the growth rate of exports. Additionally, strong local demand implies a solid outlook for imports, which should narrow the trade surplus compared to 2011 levels. As a result, the current account deficit will widen in 2012 to a still manageable 3% of GDP. Foreign direct equity inflows mainly directed at the mining and energy sectors will easily cover the external financial gap. The government remains committed to fiscal consolidation. Recently, the authorities revised the expected fiscal deficit from an initial 2.8% of GDP to 2.4%, more than a percentage point below the 2011 deficit.

The Colombian peso (COP), ranking at the top of Latin American currency performance charts over the past six months, has benefited from an accelerating US economy, a stable domestic growth outlook and high, though declining, crude oil prices. Large foreign capital inflows, positive terms of trade and attractive interest rate differentials will support demand for Colombian assets and consolidate exchange rate stability throughout 2012. During the most recent episode of global foreign exchange volatility and low risk appetite, the reaction of the COP vis-à-vis the US dollar (USD) was less aggressive than other currencies in the region and its subsequent recovery has been faster. We estimate that the COP will be subject to official intervention and will close the year at 1,800 per USD. The central bank, which has at its disposal US$34 billion in international reserves, extended the daily USD purchase program until November.

Colombia continues to benefit from high demand for investment-grade high-yielding sovereign debt assets. Colombia's sovereign credit ratings achieved "full" investment grade status by all major rating agencies a year ago. The outlook for the ratings is stable, supported by a strong macroeconomic performance, an improved external debt profile and high international reserves. Colombia's credit default swaps, at around 140 bps, remain among the lowest in Latin America. The nation also has access to a two-year IMF Flexible Credit Line of US$6 billion approved in May 2011, which the authorities treat as a precautionary financing vehicle.

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The CAD — Commodity Link & The Outlook To Year-End

- **In June CAD underperformed its commodity peers; but held up well considering the collapse in oil prices. The outlook to year-end is still a favourable one.**

FX markets have been impacted by three important themes in 2012: 1) the European crisis; 2) a vulnerable global growth outlook and 3) the policy response. After a difficult spring, June marked a turning point. As the global growth outlook deteriorated and the European crisis escalated, policy makers began to react. The G4 central banks all reiterated their dovish stances; while China's commitment to loose monetary policy and government stimulus increased. On the back of this policy response, risk metrics stabilized and some risk assets turned higher. Commodity currencies rallied, with NZD up 4%, AUD up 3% and NOK up 1% since the beginning of June; however CAD struggled and has even lost some ground — see chart 1.

Accordingly there is a disconnect between CAD and the other commodity currencies. There are several explanations for why. The first is that CAD is more strongly correlated with commodities than the other commodity currencies — see chart 2, which describes the average 1 year 120-day rolling correlation. Many of these commodities have collapsed in June (take oil prices, where Brent is down 12.3% and WTI is down 11.8% since the end of May). Accordingly the downward pressure on some commodities has weighed more heavily on CAD than others. This suggest that the outlook for global growth is likely a more important driver for CAD than the other currencies and implies that shifts in this outlook should prove a key driver of CAD going forward. However, the disconnect is not just about commodity prices.

Developments over the last month have generally been more negative for CAD than the other commodity currencies. For instance, domestic Canadian data has softened with disappointing releases on housing starts, manufacturing sales, retail sales and CPI. US data has also disappointed, with weak employment, manufacturing, factory orders, retail sales, CPI and industrial production. In addition, the changes to Canada's mortgage rules (likely positive in the long term, helping to avert a housing bubble) are a weight on the housing sector in the near-term and have dampened expectations for BoC interest rate hikes. Finally, CAD was far more stable during the earlier period of currency weakness, so there is less to retrace. Accordingly CAD has underperformed the other commodity currencies for several important reasons.

However, looked at from a different angle, CAD has wildly outperformed if we compare it to oil prices during June (see chart 3). This development is harder to explain, but

Chart 1: FX Performance in June

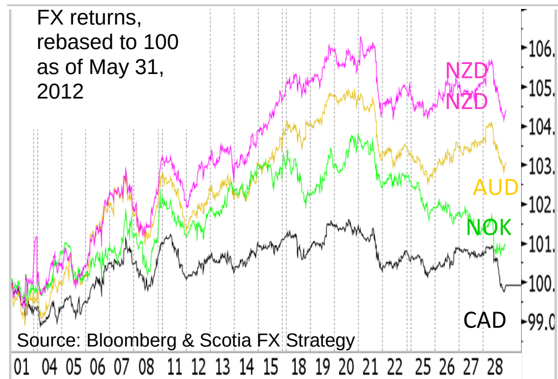


Chart 2: Correlations between FX and commodities

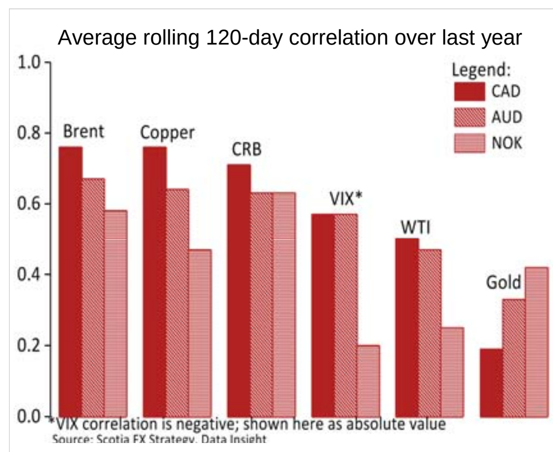
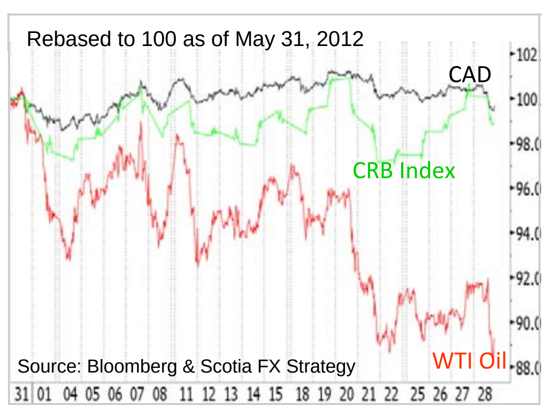


Chart 3: CAD, oil & CRB performance



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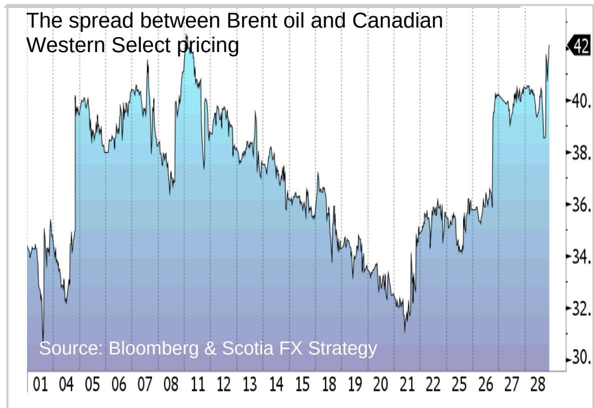
likely has to do with a rally in other commodities, particularly agricultural, that has helped to offset some of the negative impact of lower oil prices (see chart 3 for the CRB commodity index performance versus CAD and WTI). For the first half of the month CAD likely also held up (relative to WTI) due to a narrowing of the Brent (where Canada imports) and Canadian Western Select (where Canada exports) spread; however this has subsequently reversed over the last several sessions (see chart 4).

Chart 4: CAD, oil & CRB performance



We believe that CAD's correlation with oil is driven by two, somewhat interrelated themes: 1) higher oil prices bring higher revenues into Canada; and 2) higher oil prices driven by demand reflect stronger global growth. The breakdown in the oil/CAD correlation likely reflects different dynamics playing out in oil prices that are less to do with global growth and more to do with supply of oil (Saudi Arabia's large increase in production). Because they are supply related and judged by some to be temporary, CAD is less impacted than it would otherwise be. In addition the risk appetite and weak USD drivers that are supporting CAD are proving less important to oil than the increase in supply.

Looking ahead CAD sits in an awkward position. Risks associated with global growth loom, as do spikes in European induced risk aversion. It is relatively easy to build the case that the fundamentals in Canada no longer justify a strong, let alone a strengthening, CAD. However, in currencies what matters is the relative story and looking around the advanced economies strong Triple A rated sovereigns, with large natural resource reserves, hawkish central banks and favourable sentiment are a rarity. Canada shines on these metrics. In addition, Scotia Economics expects oil to average $95 in 2013 and for China to manage a soft landing; both of which are positive for the fundamental CAD story. Accordingly, we expect CAD to strengthen into year-end, closing at 1.01 (in USDCAD terms we target 0.99 in 2012 and 0.96 in 2013).

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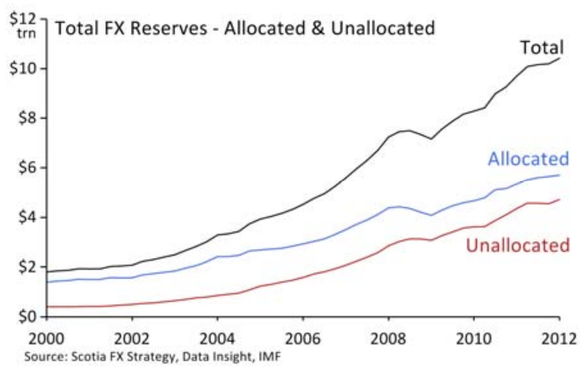
USD Remains The Reserve Currency Of Choice

All data is from the IMF as of March 30, 2012; released June 29, 2012.

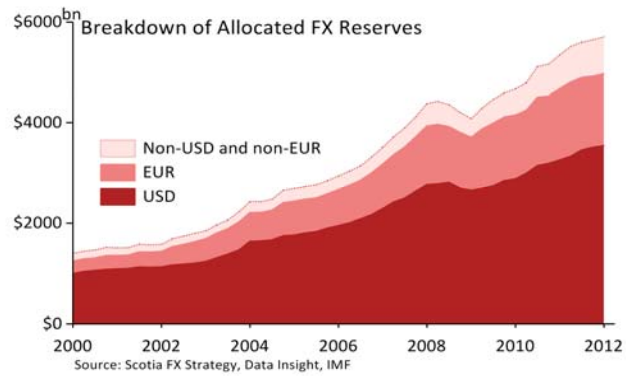
- **Total FX reserves increase to $10.4trn, a much larger increase than last quarter.**
- **USD neutral — as it remains the reserve currency of choice, but allocation is flat at 62.2%.**
- **EUR positive — as reserve managers maintain 25% of reserves in EUR.**

TOTAL FX RESERVES RISE TO $10.4 TRILLION



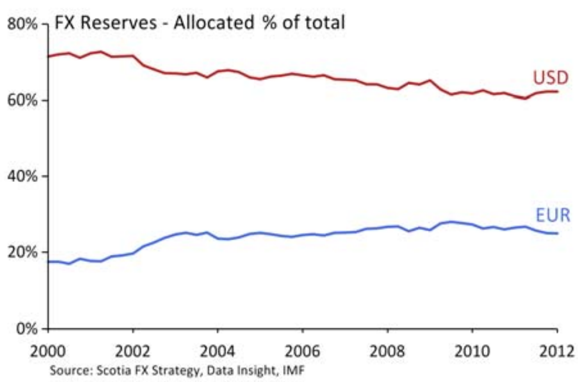
- Total FX reserves increased to $10.4trn, a $226bn q/q increase; larger than last quarters $29bn increase, implying that FX reserve buying was significant in Q112.
- Most of the increase was in unallocated reserves (largely assumed to be China).
- Allocated reserves are composed of 139 countries that report; China is the largest country not to report to the IMF. See page 2 for further details.

BULK OF RESERVES STILL HELD IN USD



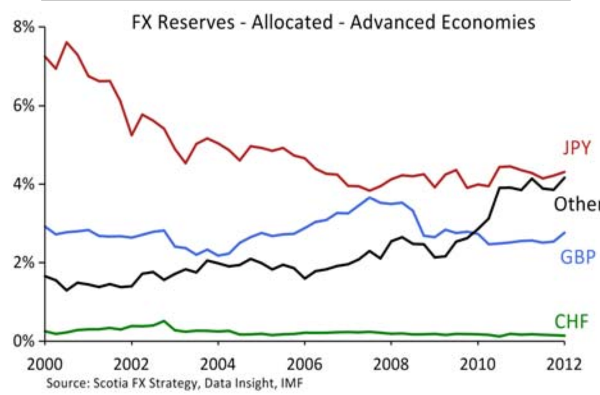
- The bulk of reserves are still held in USD, which now total $3.6trn or 62.2% of allocated reserves. Unallocated reserves (which includes China) would also show a large percentage held in USD.
- EUR is the second largest reserve currency, with $1.4trn or 25.0% of allocated reserves held in it. In Q1 reserve managers bought $10bn in EUR and $35bn in USD.

RESERVE MANAGERS STAY LOYAL TO THE USD



- Contrary to popular belief and supportive of EUR, data suggest that fears over Europe have not materially changed the allocation to EUR. However this data only covers to March 2012, prior to the escalation in the European crisis.
- The fears of reserve diversification and flight out of the USD have also not materialized.

FX MANAGER ALLOCATIONS RELATIVELY STABLE



- Allocation to GBP increased (now at 4.0%); whereas they remain stable in CHF (0.12%) and JPY (3.5%).
- FX reserve managers decreased their allocation to 'other' currencies (including CAD) by $3.6bn. See next chart for further details.

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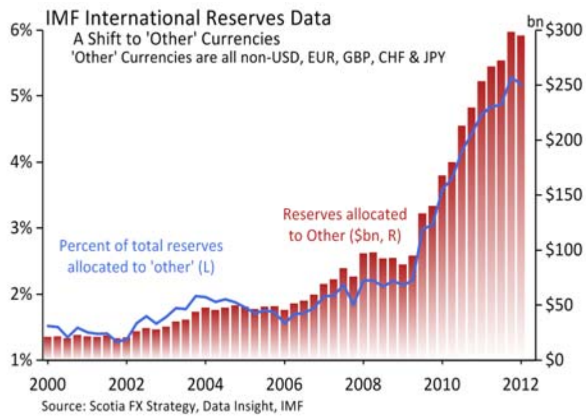
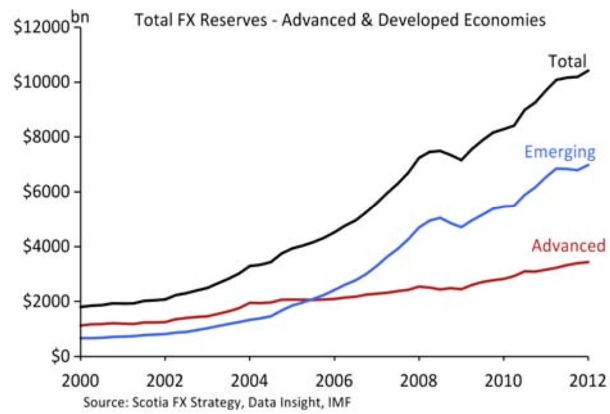
ALLOCATION TO 'OTHER' CURRENCIES DROPS



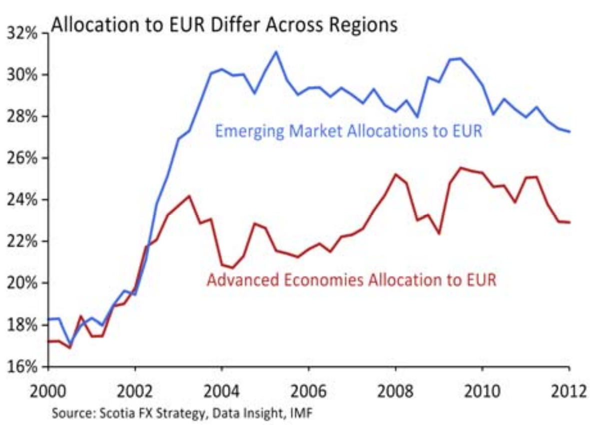
- The allocation to 'other' currencies (which includes all reserves not held in USD, EUR, GBP, CHF and JPY; therefore includes CAD) decreased to 5.1%, a q/q $3.6bn decrease. This is the first decrease in several years; however we do not think one point shifts the trend. In addition, this includes only allocated FX reserves, we suspect that total reserves allocated to 'other' currencies grew, supporting currencies like CAD, anecdotal evidence supports this view as well.

EMERGING ECONOMIES HOLD BULK OF RESERVES



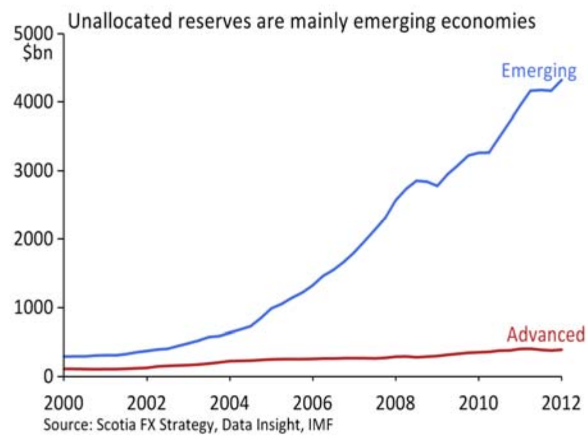
- The bulk of reserves and growth in reserves is in emerging economies. Quarter over quarter, advanced economy reserves grew by $39bn; whereas emerging economies grew by $187bn.
- The trade weighted USD lost 0.8% in Q112, suggesting that as the USD weakened there was an increased need for intervention by EM central banks and governments.

ALLOCATION TO EUR DIFFERS ACROSS REGIONS



- Emerging market countries hold a larger percentage of FX reserves in EUR (27% versus 23% for advanced market countries).
- We expect emerging economies will begin to accelerate their shift away from EUR, which should weigh against the currency in 2012.

UNALLOCATED RESERVES WEIGHTED TO EM



- The bulk of unallocated reserves are from emerging market countries that do not report their reserve positions (with China being the largest of these countries).
- Globally, there are 34 advanced economies that report to the IMF and 105 emerging economies.

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Does The ECB Trust Politicians?

Key Points

- **Ahead of next week's ECB decision, if feels a lot like it did ahead of the December meeting.**
- **At that time, the ECB implicitly endorsed the move by eurozone politicians towards the fiscal compact — cutting the refinancing rate and announcing the LTRO.**
- **The key question ahead of the July meeting is whether the same will be true following the latest EU summit and whether the ECB can trust the politicians to pull their weight.**

Back to December meeting!

"Addressing divergences among individual euro area countries is the task of national governments. They must undertake determined policy actions to address major imbalances and vulnerabilities in the fiscal, financial and structural domains. We note that progress is being made in many countries, but several governments need to be more ambitious."

ECB Press conference, 3 May 2012.

"I think, is that they (many observers) underestimate the strength of the political commitment by the euro area member countries."

ECB Press conference, 6 June 2012.

Can the ECB trust politicians? The answer to this question is key as it will also have a strong influence on market thinking regarding the current EU summit. Based on the ECB comments over the past two months, it seems that the central bank has adopted an aggressively neutral stance on this question. It is also one of the possible explanations behind the status quo on rates at last month's meeting despite the ECB president recognizing that they are *"fully aware that the most recent soft data point to the downside "* and that *" few members would have preferred to have a rate cut today"*.

However, we all know that this kind of neutral stance and wait-and-see attitude is not sustainable over the medium term. After the current EU summit the Governing Council will have to get off the fence. In this regard, it seems to us that we are back to the atmosphere of last December's meeting which followed the November crisis and which took place at the same time as the December EU summit which created the Fiscal Treaty. At that time, the ECB decided to endorse this political commitment by further lowering interest rates and announcing the LTRO. This demonstration of strength and of closer cooperation with EMU governments helped to ease risk aversion in the following months.

What to expect from the central bank?

What action at this summit could appease the ECB? The agreement on the €120 billion growth plan is unlikely to be a trigger for ECB action. Most important are all the steps taken to reach the "vision" that is often mentioned by the ECB president and which refers to stronger fiscal and political integration. It includes in particular the issues of the ratification of the fiscal compact and the move towards the banking union announced following the summit.

The commitment from the governments to move forward on the ratification of the fiscal pact is considered the minimum step, as you have to remember that the ECB has been very annoyed by the large loopholes associated with the Growth and Stability Pact over the past decade. Beyond this, the agreement of a direct involvement of the ESM in the recapitalization of the banks once a banking supervisor, likely linked to the ECB itself, is set up will be closely gauged by the central bank.

Immediate positive comments from the ECB president following the summit are encouraging and raise optimism that the central bank will respond to it. However, it remains to be seen if this positive reaction from the ECB president is shared by the rest of the board.

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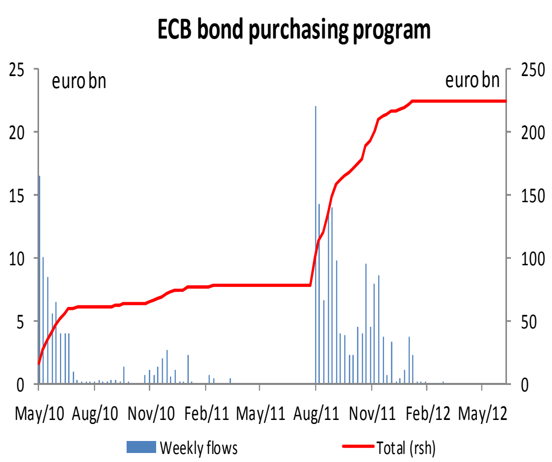
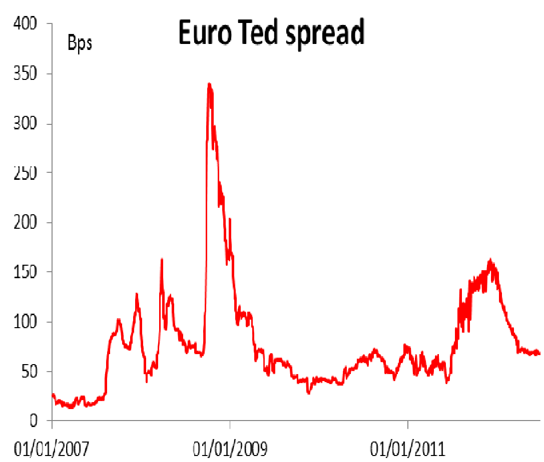
A rate cut will be a minimum we would expect as a response from the ECB. The arguments for such a move are well known: deteriorating business and consumer confidence raising the risk of a new recession in H2, slowing inflation and falling medium-term inflation expectations in the inflation swap market are among them. We would therefore look for a 25 bps cut although there are now calls for even a 50 bps drop. However, we would think that the ECB would be reluctant to deliver such a sharp move as it would be a recognition that it was behind the curve the previous month. The effectiveness of this rate cut could be strengthened by the prospect of seeing the deposit rate also adjusted lower but it is likely to be a close call.

Beyond a Refi rate cut there remains the possibility that the ECB will announce a new LTRO or a reactivation of its bond purchasing program. That would be seen by the market as a strong backing of the EU summit decision by the central bank. Regarding the LTRO, the comments from Mr. Draghi last month suggested that the lack of liquidity was not an issue and therefore the probability to see this policy tool looks low. It is true that looking to the Ted spread (3 month euribor — 3 month German T bill), which is usually seen as an indicator of stress in terms of liquidity, there is relatively little sign of tension. On the bond purchasing program, it has been almost silent since the LTRO and the ECB made it relatively clear that it wanted the ESM in place on July 9th in order to take the burden on this front, and the capacity to intervene quickly seems to have been enhanced by the recent EU agreement. However, any decision to restart this program to strengthen the efficiency of the ESM will be a strong signal. The justifications would be the same as those used in the past: restoring the appropriate transmission of monetary policy which is the key once again. However, on these two issues, it means that, as it is between EMU governments, the ECB will likely have to deal with rising divisions inside its board, which increases the pressure on Mr. Draghi for taking a stronger position.

Chart 1: ECB bond purchasing program & Ted spread





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U.K. — If The Inflation Report Was Today…

- **Among the most striking references in the BoE Governor's testimony to MPs was that the Bank's economic projections have been all but abandoned given developments since May. We calculate that if the *Inflation Report* was today, the Bank would be predicting inflation at 1¼% y/y at the crucial 2-year-ahead horizon. Although some MPC members, like us, believe that alternatives to QE are now the right course of action, the Bank is looking more likely than not to engage in another round of gilt purchases.**

Fast Forward

Back in May, the Bank of England's *Inflation Report* projections pointed to GDP growth of just above ½% y/y on average for this year, with inflation slowing to 1.59% y/y 2 years from now. Since then we have had back-to-back downward surprises on CPI inflation, the oil price has tumbled and the GDP growth outlook has deteriorated. Mervyn King, the BoE Governor, noted in his testimony to the Treasury Select Committee (TSC) last week that he has been struck by how much has changed in the last six weeks.

A useful exercise in this situation is to quantify the likely impact of developments since the May *Inflation Report* on the Bank's projections. In particular:

- A **surprise on near-term inflation** typically moves the 2-year-ahead projection by around one-third of that amount. Hence the near-0.4% downward surprise on inflation in the last two months is likely to see the Bank's 2-year ahead projection pushed **down by around 0.15% points**;
- The **price of oil** is down by between 15 and 17% across the futures curve out to two years. We estimate that this should drag the Bank's 2-year-ahead inflation projection **down by around 0.25% points.**
- The **trade weighted GBP exchange rate** has moved broadly sideways – **zero impact.**
- The Bank's **GDP forecast** is too optimistic. The Bank exercises considerable wiggle room in this area. Its growth projection shows where the Bank expects the GDP growth rate to be after all subsequent revisions have been taken account of. It expects upward revisions to evolve over the coming year or so. Nonetheless, it is still possible to extract the % q/q growth rate implied by its forecast. We judge that the Bank expects 0.0% q/q to 0.1% q/q in Q2. We expect growth of more like -0.1% q/q. A downward revision in the Inflation Report to around 0.3% q/q would probably **subtract 0.05% points from the Bank's inflation projection**.
- **Equities** (FTSE all share) have fallen by almost 4% since the May projections. It is hard to quantify what impact this has on the Bank's inflation projection. However at the margins it would argue for a more negative bias.

Overall, taking all of these influences together, we judge that if the *Inflation Report* was today, the Bank's 2-year-ahead inflation projection would be around **1¼% y/y**. That represents a downward adjustment of around 0.35% points from the May projection.

Risk Management

The Bank has highlighted that its projection is more than just a point forecast at the two-year horizon. The Bank's 'ribbon' chart that takes account of the risk distribution around the central case is increasingly important. We suspect that this projection shows an increasing probability that inflation undershoots target at the medium-term horizon (from around 55% in May).

It is not unheard of for the BoE to hold back from QE even with a 2-year-ahead inflation projection as low as 1¼% y/y (this was the case for much of 2010). However, robust GDP, above-target inflation or elevated PMI readings have tended to obstruct policy ease. In the current environment, none of these represent an obstruction. Some form of policy ease is clearly justified. It is just a question of what kind of policy ease.

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Complement or Substitute

The debate at this meeting is whether the additional policy ease already announced is a substitute for or complement to further QE. The additional policy ease has taken the form of the 'Funding for Lending' scheme and the 'Extended Collateral Term Repo Facility' — ECTRF. The Bank's Financial Policy Committee (FPC) has also announced steps towards easing liquidity requirements on banks. Clearly, by dissenting at the June MPC, King, Miles, Posen and Fisher all believe that these measures are a complement to more QE.

The question is whether developments since the June meeting are enough to persuade other members of the committee to change their view. The EU summit in Brussels is the last key consideration that these members highlighted. Given the market reaction on Friday, it is a case of 'so far so good' from the EU summit. However, past Eurozone announcements have seen euphoria become exhausted in fairly short order. So the MPC may not be completely appeased by the latest announcements.

The announcements from the FPC were a little implicit. In particular, the main policy measure that we spotted at first glance was a relaxation on bank holdings of liquid assets:

> *"The Committee recommends that the FSA makes clearer to banks that they are free to use their regulatory liquid asset buffers in the event of a liquidity stress"*.

Our point is that it is not clear to us that this is a game-changer in itself. We don't believe that the FPC offered sufficient ammunition for those members of the MPC that didn't vote for QE in June to be dissuaded from pulling the trigger on more QE in July or August.

"They will do QE, but it won't work…"

While the consensus of economists in a recent poll suggested there is an 80% probability of more QE in July, only around half of them thought that this would be effective. We would tend to side with the group that doubts the effectiveness of further QE. GBP50bn is an awful lot of money to spend if you are not convinced it is going to have much impact.

The bottom line is it is now looking more likely than not that the BoE expands QE at the July meeting. However, we believe it is far from a black and white situation. The probability is likely only just above 50%. Given that the consensus of other forecasters puts the probability at 80%, it may be worth a small punt positioning for a surprise no change.

If five MPC members didn't vote for QE at the June meeting, has the situation evolved sufficiently to justify it now? We have had the Mansion House speech measures, a successful EU summit and the FPC announcement. Surely there is a decent chance that the MPC surprises this week and sits on its hands to await the success of these other measures?

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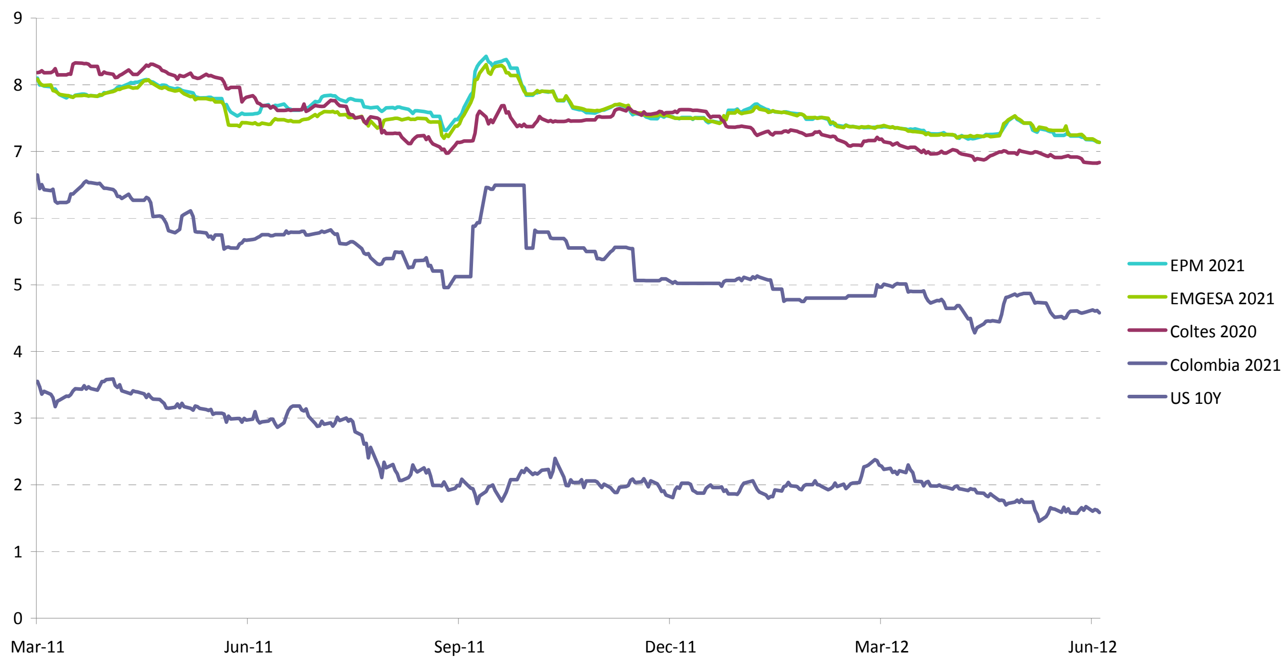
Relative Value In Colombian Peso Bonds

Extreme differences in the investor bases between peso-denominated local bonds, offshore bonds, and utility bonds in Colombia have led to different sensitivities to movements in US Treasuries, and an outperformance in some of these bonds. For those investors not worried about President Santos' recent comments on the currency, we think the best way to gain exposure would be through NDFs or through offshore utility bonds.

Over the past year, we have seen significant changes not only in the yields of different Colombian Peso bonds but also in the relationship between those yields. As shown in Figure 1, yields on all of the bonds have fallen, largely driven by the fall in US Treasuries. The response of the COP bonds to US Treasuries has been one-for-one only for the offshore sovereign bonds (Global Tes), however. Both local Tes and the utilities, Emgesa and EPM, are less sensitive to US Treasuries during specific risk-off episodes as well as over the longer term. As a result, offshore utility bonds have widened relative to the sovereign offshore bonds by 100bp (see Figure 2 on next page).

Figure 1. Yields on COP bonds



Source: Bloomberg

We don't think that a change in fundamentals is responsible for the shifts. Results for the utilities during the first quarter of 2012 were good, with both companies reporting a Debt-to-Ebitda level of 1.7 and increases in revenues and Ebitda relative to the previous year. Both companies are planning expansions, with Emgesa focusing on the domestic market in contrast to EPM's more international goals, but the rate of expansion has been conservatively managed. Small increases in debt levels to fund expansion are offset by higher income not only from acquisitions but also from organic growth, such that leverage levels do not change much. It is true that quasi-sovereign spreads in emerging markets have increased relative to their respective sovereigns over the past year, but that increase has been small, far smaller than we see with the utilities here. Instead, we look to technical factors to explain recent movements.

Who holds the bonds?

The differences in investor bases for the bonds are immediately apparent from government data. The Ministry of Finance does not track secondary holdings, but we see in the primary issuance data that Colombia-based investors are no longer interested in Global Tes. In 2005, they had purchased up to 60% of some of the

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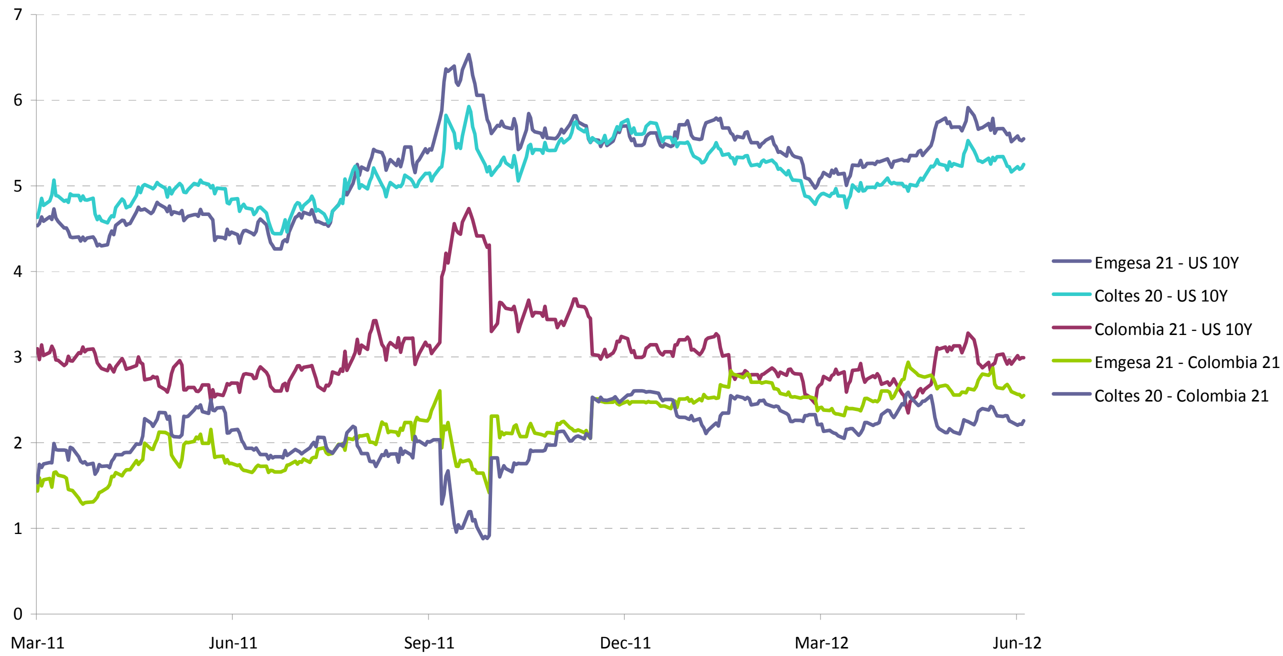
reopenings of a Global COP note; in 2007, their participation was down to 8%, and then fell to zero in the issuance occurring in 2010. Another visible trend is the shift from hedge funds as the largest buyer of these bonds during initial issuances in 2005 and 2007 towards asset managers by 2010.

Figure 2. Differences in yields



Source: Bloomberg

In contrast, local TES notes are held by Colombian institutions. According to data as of the end of May, pension funds, commercial banks, public trust funds, public entities, and insurance companies, together, held 81% of the outstanding local treasury bonds. The government data does not break out foreign holdings, perhaps because foreigners would hold those bonds under local subsidiaries, but it is nevertheless widely believed that foreign holdings are small, likely less than 5%. Some foreigners might hold exposure through derivative transactions with banks, but we doubt those holdings are very large, and surely must be smaller than the overall 21% holdings of local banks. Taxes are the obvious explanation, with a 33% tax on total returns, making local bonds unattractive to most foreign investors. At the currently much wider differentials between local and Global Tes, the post-tax yield on the local Tes would be equivalent to the yield on the Global Tes, but additional transaction costs may still make the offshore bonds more attractive to foreigners. We imagine a local Colombian investor has much more leeway to manage taxes by offsetting gains on local Tes against losses in other areas, which would explain why local investors stay in these instruments.

The ownership pattern for the utilities EPM and Emgesa lies somewhere in between these two extremes. According to Emgesa data on their 2011 issuance, 59% of the bonds were purchased by investors in Latin America, while the rest of the demand came from the developed world — 29% from the US and 12% Europe. The breakdown by investor type showed 38% of the demand from pension funds, 39% from other investment funds, and 7% from retail. Consistent with these figures, it is believed in the market that Colombian institutional investors play a significant role in the secondary markets, though we would also assign a much larger role to retail investors in the secondary market than they seem to have played in the primary market.

Once we take into account who the investors are, some of the recent movements make sense. Colombia has fewer external financial linkages than other Latin American countries, with around 80% of the financial

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institutions locally owned. As a result, holders of local Tes can to some extent ignore movements in US Treasuries, whereas US-based institutional holders of the offshore bonds cannot.

Recommendations

Given how much yields on Colombian Global Tes have tightened already, we don't think these bonds represent the best way to gain exposure to the peso right now. Levels are highly attractive for the Colombian Ministry of Finance, however, and considering that there remains room in the government budget for more external issuance and apparent demand for the bonds remains strong, we could see more supply this year. Forward points in NDFs have increased substantially in recent months, with an implied annualized depreciation rate of 7% in the one-month and 4% in the one-year. The difference in yields between Colombian TES and Colombian USD bonds is less than 2%. Thus, for those investors who are not concerned about President Santos' recent comments about the exchange rate (we'll get news on monetary policy this afternoon) and want to add to their Colombian currency exposure, buying Colombia USD bonds and gaining currency exposure through NDFs seems preferable to the Global Tes bonds.

Additionally, we think the market is overlooking the benefits of the Colombian utility bonds which are trading at around 250bp wide to Global Tes and about 450bp wide to the sovereign USD bonds. Gaining currency exposure through these instruments may be preferable to the NDFs since you are trading bank counterparty risk for utility credit risk, which in the current environment seems the right trade. We have long believed that the spread over sovereign for utilities relative to the sovereign is too high (see our earlier publications), and that case is especially strong today.

Additional publications on COP bonds:

"Emgesa, Is it better than Colombia?" February 24, 2011
"Comparing Colombia's Emgesa and EPM," May 12, 2011.
"Colombian utilities 3Q11 update," November 30, 2011.
"The case for Colombian peso bonds," February 11, 2011.
"Why is Colombian monetary policy different?" December 9, 2011

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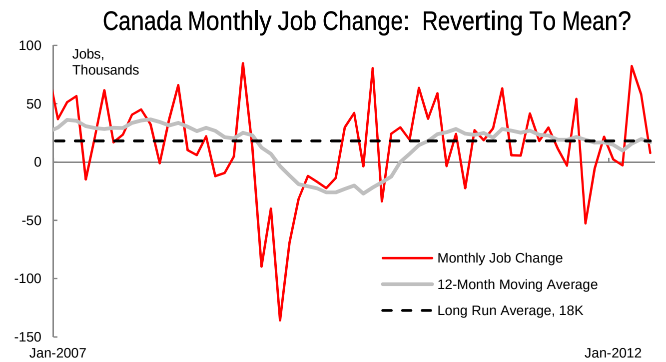
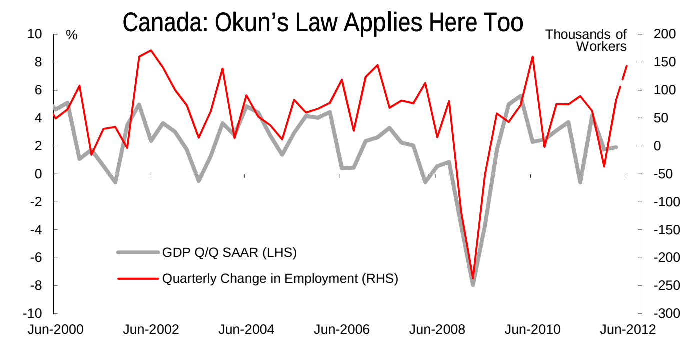
Key Data Preview

CANADA

The **Labour Force Survey** for June will be released on July 6, and Scotia is anticipating that job growth will come in fairly flat for a second consecutive month after the Canadian economy added 140.5k jobs in March/April 2012 — the second strongest 2-month job gains on record. If Scotia's anticipated 10k employment gain for June materializes, the average job gain over the preceding three months would still come in at a respectable 26.3k and the 6-month average would be a slightly higher 28.2k. Both of those numbers are measurably higher than the 18k jobs per month that the Canadian economy typically generates when GDP grows at its trend pace (and GDP could well have grown slower than the 2.2% long term trend growth defined by the BoC). The one caveat is that the very large job gains of March and April compensated for much weaker growth earlier in the year: the average job gain over the preceding 12 months was 17k — a shade below the long-run 18k average. April GDP came in at a decent 0.3% m/m, however the outlook is fairly tepid for May and June output due to the global slump, so we don't think that the economy should sustain a pace of jobs growth during Q2 that would be associated with GDP growth of 3% or more.



Source: Scotia Economics, Statscan



Source: Scotia Economics, Statscan

UNITED STATES

The **BLS jobs data** for June will be released in the US on July 6, and Scotia anticipates that non-farm payrolls will come in at 75k after two lackluster months (69k in May, 77k in April). Our forecast is driven by elevated levels of initial jobless claims, which ran higher during the first two weeks of June than they did during the first two weeks of the preceding months (note that the 'reference period' for the non-farm payrolls survey corresponds roughly with the first two weeks of the month). As well, if the 'excess seasonal adjustment' thesis that Fed Chairman Bernanke among others has hypothesized is valid, then seasonal adjustment should shave off more than in previous months (see table). While we expect the unemployment rate to remain unchanged, there is a risk that re-entrants to the labor force could increase the participation rate and/or that there will be an unexpected swing in the employed persons data — as usual with the volatile household survey. ADP will release its jobs report on July 5.

US Nonfarm Payrolls Seasonal Adjustment Factors

	SA Factor (Past 4 Years)	% Adjustment from SA Factor
January	1.0160	1.60%
February	1.0117	1.17%
March	1.0066	0.66%
April	1.0001	0.00%
May	0.9952	-0.48%
June	0.9927	-0.73%
July	1.0025	0.25%
August	1.0015	0.15%
September	0.9976	-0.24%
October	0.9917	-0.83%
November	0.9907	-0.93%
December	0.9937	-0.63%

Source: Scotia Economics, BLS

The **ISM manufacturing survey** for June will be released on July 2, and after the Philadelphia Fed's diffusion index plummeted this month, there is a risk that the ISM will fall steeply as well. Scotia is forecasting a reading of 52.5, lower than May's 53.5 number but not the type of precipitous decline registered by the Philadelphia Fed index either. A variety of regional Fed surveys, including some national ones, held up better in June than the Philly Fed. **Vehicle sales** and **factory orders** data will be released on July 3.

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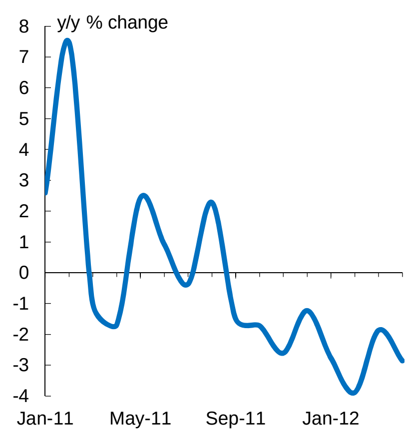
EUROPE

The UK manufacturing purchasing managers' index (PMI) has fallen by 6 points in the last 2 months — the second biggest 2-month fall on record. The fall is at odds with accommodative domestic financial and monetary conditions gauged by our models. However, that doesn't mean that the two can't continue to diverge. This has also been the case in Germany and the US. What this illustrates is that there is a crisis of confidence rather than a home-grown domestically generated slowdown. What has changed on that front? If anything, things have got worse over the last month. We believe that this points to further falls in the PMI survey. That is in contrast to the consensus knee-jerk reaction that after such a big fall over the last two months, there should be at least a partial bounce-back. Looked at in an international context, the German manufacturing PMI has fallen from 51 at the start of the year to 44.7 in June. With the UK equivalent at 45.9, there is easily further downside in that regard. We expect a fall to 45.0. The services sector PMI tends to be more reflective of domestic conditions, but hasn't been immune to the effects of financial market jitters. Falls in equity prices and government bond yields are normally a decent gauge of direction for this survey. Both point to further weakening. We expect a further fall to 52.0. The combination of the two readings would leave the composite PMI in line with the 50-boom-bust threshold although in practice, that is typically consistent with contracting output.

LATIN AMERICA

One of the main components of the Brazilian deceleration has been the major slowdown in the industrial sector, particularly in manufacturing output. After GDP expanded by only 0.8% y/y in the first quarter of the year, industrial production (IP) will be a key driver for economic performance in second quarter. So far, IP contracted for six consecutive months, most recently decreasing by 2.9%y/y in April from a previous annual rate of -2.1% in March. Monthly data also suggest continued weakness in the sector, falling by 0.2% m/m in April. Pharmaceuticals, communication equipment and vehicles production were the major contributors to the negative year-over-year performance of IP, offsetting the positive effect of mining and furnishing. We expect IP to continue to soften in the coming months; however, a weaker currency and official stimulus for some of these sectors could generate a slow recovery.

Brazilian Industrial Production



Source: Bloomberg

ASIA

A full data calendar in Australia next week includes the release of building approvals (Monday), retail sales (Tuesday) and trade (Wednesday). After a decline of 8.7% m/m in April on fading momentum in consumer activity, we expect a slight rebound of around 3% in building approvals in May. In year-over-year terms, building approvals have been declining since late 2010, and this trend will likely continue in the coming months, though recent monetary easing by the Reserve Bank of Australia (RBA) should temper the slide to some extent. Retail sales dipped 0.2% m/m in April (the first negative print since last June). The slight improvement in consumer confidence (triggered by the RBA cut) and decline in unemployment likely pulled retail sales back into positive territory in May; we anticipate modest growth of 0.1% m/m. Finally, on the trade front we expect that the deficit widened in May to around half a billion Australian dollars from AUD 203 million in April (this compares to a surplus of AUD 3 billion in May 2011). Australian exports are being constrained by the slowdown in key emerging-Asian markets and lower (though still favourable) commodity prices. A cooling of activity in both the domestic and external sectors will pave the way for further loosening of monetary conditions by the RBA in the near term.

Key Indicators for the week of July 2 - 6

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	07/02	10:00	Construction Spending (m/m)	MAY	0.3	0.2	0.3
US	07/02	10:00	ISM Manufacturing Index	JUN	52.5	52.0	53.5
US	07/03	10:00	Factory Orders (m/m)	MAY	0.5	0.10	-0.60
US	07/03	17:00	Domestic Vehicle Sales (mn a.r.)	JUN	11.0	10.9	10.8
US	07/03	17:00	Total Vehicle Sales (mn a.r.)	JUN	14.0	13.9	13.7
US	07/04	07:00	MBA Mortgage Applications (w/w)	JUN 29	--	--	-7.1
US	07/05	06:59	ICSC Chain Store Sales - Monthly (y/y)	JUN	--	--	1.7
US	07/05	08:15	ADP Employment Report (000s m/m)	JUN	70.0	100.0	133.0
US	07/05	08:30	Continuing Claims (000s)	JUN 23	3300.0	3305.0	3296.0
US	07/05	08:30	Initial Jobless Claims (000s)	JUN 30	390.0	385.0	386.0
US	07/05	10:00	ISM Non-Manufacturing Composite	JUN	53.0	53.0	53.7
CA	07/06	08:30	Building Permits (m/m)	MAY	--	-1.0	-5.2
CA	07/06	08:30	Employment (000s m/m)	JUN	10.0	5.0	7.7
CA	07/06	08:30	Unemployment Rate (%)	JUN	7.3	7.3	7.3
US	07/06	08:30	Average Hourly Earnings (m/m)	JUN	--	0.2	0.1
US	07/06	08:30	Average Weekly Hours	JUN	--	34.4	34.4
US	07/06	08:30	Nonfarm Employment Report (000s m/m)	JUN	75.0	90.0	69.0
US	07/06	08:30	Household Employment Report (000s m/m)	JUN	--	--	422.0
US	07/06	08:30	Unemployment Rate (%)	JUN	8.2	8.2	8.2

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	07/02	03:45	Manufacturing PMI	JUN	--	44.6	44.8
FR	07/02	03:50	Manufacturing PMI	JUN F	45.3	45.3	45.3
GE	07/02	03:55	Manufacturing PMI	JUN F	44.7	44.7	44.7
UK	07/02	04:30	Manufacturing PMI	JUN	45.0	46.5	45.9
EC	07/02	05:00	Unemployment Rate (%)	MAY	11.1	11.1	11.0
RU	07/02	07:59	**Russia Refinancing Rate (%)**	JUL 2	**8.00**	**8.00**	**8.00**
IT	07/02	13:00	Budget Balance (€ bn)	JUN	--	--	-4.3
IT	07/02	13:00	Budget Balance YTD (€ bn)	JUN	--	--	-35.1
UK	JUL 2-6		Halifax House Price (3 month, y/y)	JUN	-0.8	-0.8	-0.1
UK	07/03	04:30	Net Consumer Cred (£ bn)	MAY	--	0.2	0.3
UK	07/03	04:30	PMI Construction	JUN	--	52.9	54.4
EC	07/03	05:00	PPI (m/m)	MAY	--	-0.3	0.0
SW	07/04	03:30	**Riksbank Interest Rate (%)**	JUL 4	**1.50**	**1.50**	**1.50**
IT	07/04	03:45	Services PMI	JUN	--	42.5	42.8
FR	07/04	03:50	Services PMI	JUN F	47.3	47.3	47.3
GE	07/04	03:55	Services PMI	JUN F	50.3	50.3	50.3
UK	07/04	04:30	Official Reserves (£ bn)	JUN	--	--	-1308
UK	07/04	04:30	Services PMI	JUN	52.0	52.9	53.3
EC	07/04	05:00	Retail Trade (m/m)	MAY	--	0.0	-1.2
GE	07/05	06:00	Factory Orders (m/m)	MAY	-0.4	0.0	-1.9
UK	07/05	07:00	BoE Asset Purchase Target (£ bn)	JUL	375.0	375.0	325.0
UK	07/05	07:00	**BoE Policy Announcement (%)**	JUL 5	**0.50**	**0.50**	**0.50**
EC	07/05	07:45	**ECB Announces Interest Rates (%)**	JUL 5	**0.75**	**0.75**	**1.00**
FR	07/06	02:45	Central Government Balance (€ bn)	MAY	--	-66.0	-59.9
FR	07/06	02:45	Trade Balance (€ mn)	MAY	--	-5500.0	-5801.0
SP	07/06	03:00	Industrial Output NSA (y/y)	MAY	--	--	-8.2
UK	07/06	04:30	PPI Input (m/m)	JUN	-2.0	-2.1	-2.5
UK	07/06	04:30	PPI Output (m/m)	JUN	-0.6	-0.2	-0.2
GE	07/06	06:00	Industrial Production (m/m)	MAY	0.5	0.1	-2.2

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Key Indicators for the week of July 2 - 6

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SK	06/30	20:00	Trade Balance (US$ mn)	JUN	--	2300	2256
CH	06/30	21:00	Manufacturing PMI	JUN	--	49.9	50.4
JN	07/01	19:50	Tankan All Industries Index	2Q	--	3.6	0.0
JN	07/01	19:50	Tankan Manufacturing Index	2Q	--	-4.0	-4.0
JN	07/01	19:50	Tankan Non-Manufacturing Index	2Q	--	7.0	5.0
ID	07/02	00:00	Trade Balance (US$ mn)	MAY	--	311.0	-641.1
JN	07/02	01:00	Vehicle Sales (y/y)	JUN	--	--	66.3
IN	07/02	01:30	Exports (y/y)	MAY	--	--	3.2
IN	07/02	01:30	Imports (y/y)	MAY	--	--	3.8
JN	07/02	19:50	Monetary Base (y/y)	JUN	--	--	2.4
AU	07/02	21:30	Building Approvals (m/m)	MAY	3.0	5.0	-8.7
AU	07/03	00:30	**RBA Cash Target Rate (%)**	JUL 3	**3.50**	**3.50**	**3.50**
AU	07/03	21:30	Retail Sales (m/m)	MAY	0.1	0.2	-0.2
MA	07/04	00:01	Trade Balance (MYR bn)	MAY	--	7.7	7.5
AU	07/04	21:30	Trade Balance (AUD mn)	MAY	-500	-500	-203
JN	07/06	01:00	Coincident Index CI	MAY P	--	95.7	96.9
JN	07/06	01:00	Leading Index CI	MAY P	--	95.0	95.6
JN	07/06	01:00	New Composite Leading Economic Index	MAY P	--	95.0	95.6

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	07/01	07:00	Consumer Price Index (m/m)	JUN	--	0.1	0.0
PE	07/01	07:00	Consumer Price Index (y/y)	JUN	--	4.1	4.1
BZ	07/02	09:00	PMI Manufacturing Index	JUN	--	--	49.3
BZ	07/02	14:00	Trade Balance (FOB) - Monthly (US$ mn)	JUN	--	350	2953
BZ	07/03	08:00	Industrial Production SA (m/m)	MAY	--	-0.4	-0.2
BZ	07/03	08:00	Industrial Production (y/y)	MAY	--	-3.1	-2.9
CL	07/05	08:30	Economic Activity Index SA (m/m)	MAY	--	--	0.5
CL	07/05	08:30	Economic Activity Index NSA (y/y)	MAY	--	4.4	4.8
CO	07/05	20:00	Consumer Price Index (m/m)	JUN	--	0.2	0.3
CO	07/05	20:00	Consumer Price Index (y/y)	JUN	--	3.3	3.4
BZ	07/06	08:00	IBGE Inflation IPCA (m/m)	JUN	--	0.1	0.4
BZ	07/06	08:00	IBGE Inflation IPCA (y/y)	JUN	--	5.0	5.0
CL	07/06	08:00	CPI (m/m)	JUN	--	0.1	0.0
CL	07/06	08:00	CPI (y/y)	JUN	--	3.0	3.1

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Global Auctions for the week of July 2 - 6

North America

Country	Date	Time	Event
US	07/02	11:30	U.S. to Sell USD30 Bln 3-Month Bills
US	07/02	11:30	U.S. to Sell USD27 Bln 6-Month Bills
CA	07/03	10:30	Canada to Sell CAD6.2 Bln 98-Day Bills
CA	07/03	10:30	Canada to Sell CAD2.4 Bln 183-Day Bills
CA	07/03	10:30	Canada to Sell CAD2.4 Bln 364-Day Bills
US	07/03	11:30	U.S. to Sell 4-Week Bills

Europe

Country	Date	Time	Event
NE	07/02	05:00	Netherlands to Sell Up to EUR2 Bln 86-Day Bills
NE	07/02	05:00	Netherlands to Sell Up to EUR2 Bln 359-Day Bills
FR	07/02	09:00	France to Sell Bills (BTF)
NE	07/03	04:00	Netherlands to Sell Up to EUR4 Bln 2018 Bonds
BE	07/03	05:30	Belgium to Sell Bills
UK	07/03	05:30	U.K. to Sell GBP1.75 Bln 4.75% 2030 Bonds
UK	07/04	05:30	U.K. to Sell GBP4.5 Bln 1% 2017 Bonds
GE	07/04	05:30	Germany to Sell Add'l EU4 Bln 5-Year Notes
SP	07/05	04:30	Spain to Sell Bonds
FR	07/05	05:00	France to Sell Bonds (OAT)

Asia Pacific

Country	Date	Time	Event
CH	07/02	23:00	China Development Bank to Sell CNY6 Bln 1-Year Bonds
CH	07/02	23:00	China Development Bank to Sell CNY6 Bln 3-Year Bonds
CH	07/02	23:00	China Development Bank to Sell CNY6 Bln 5-Year Bonds
CH	07/02	23:00	China Development Bank to Sell CNY6 Bln 7-Year Bonds
CH	07/02	23:00	China Development Bank to Sell CNY6 Bln 10-Year Bonds
JN	07/02	23:45	Japan to Sell 10-Year Bonds
AU	07/03	21:00	Australia Plans Treasury Bond
JN	07/05	04:00	Japan Auction for Enhanced-Liquidity

Source: Bloomberg, Scotia Economics.

Events for the week of July 2 - 6

North America

Country	Date	Time	Event
US	07/02	13:15	Fed's Williams Speaks in San Francisco
US	07/03	10:00	IMF's Lagarde Holds Press Conference on US Economy Report
US	07/03	10:00	IMF Releases Report on U.S. Economy

Europe

Country	Date	Time	Event
US	07/01		Iran Oil Sanctions Begin for U.S. and EU
EC	07/02	03:25	ECB's Asmussen Speaks in Athens
FR	07/02	04:30	French State Auditor to Release Public Account Audit
AS	07/02	05:00	ECB's Nowotny Presser After IMF Austria Mission
GE	07/02	05:00	Merkel Speaks as Book on 'Germany's Future' Presented
GE	07/02		Merkel, Helmut Schmidt at Atlantic Bridge Group Event: Berlin
SP	07/03	03:00	Spanish Economy Minister Speaks in Madrid
FR	07/03	05:00	French PM to Make General Policy Speech at National Assembly
SW	07/04	03:30	Riksbank Interest Rate
GE	07/04		Merkel to Meet With Monti in Rome
UK	07/05	07:00	BOE Asset Purchase Target
UK	07/05	07:00	BOE Announces Rates
EC	07/05	07:45	ECB Announces Interest Rates
EC	07/06	10:30	ECB's Noyer speaks at Cercle des Economistes
EC	07/06	10:30	ECB's Benoît Coeuré speaks at Cercle des Economistes
EC	07/06		European Commission Issues Quarterly Report on the Euro Area

Asia Pacific

Country	Date	Time	Event
CH	JUN 27-30		Lujiazui Forum Takes Place in China
JN	07/02	00:30	BOJ Deputy Governor Yamaguchi To Attend Panel Discussion
AU	07/03	00:30	RBA Cash Target
MA	07/05	06:00	Overnight Rate
NZ	07/05	17:00	Government Financial Statements

Latin America

Country	Date	Time	Event
BZ	JUL 2-4		World Finance Conference in Brazil

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	July 17, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	August 1, 2012	0.25	--
Banco de México – Overnight Rate	4.50	July 20, 2012	4.50	--

BoC: Markets are now pricing moderate odds of BoC easing by year-end. We think that easing is rather unlikely barring a global liquidity and funding crisis – a risk that the BoC highlighted in its Financial Stability Report but by no means our base case (or the BoC's). We expect the BoC to revise its growth and CPI projections lower in the July MPR, although decent April GDP data may diminish the extent to which this occurs for Q2 2012. We expect the BoC to remain on hold at least until mid-2013. Fiscal policies aimed at reducing momentum in property markets have done the real-estate market targeted tightening that the BoC implied that it might undertake, making additional action unnecessary and possibly extending out the timing of future rate hikes. Fed: The Fed extended its 'Maturity Extension Program' on June 20. It plans to swap the remaining US$267bn of US Treasury securities with current maturities of 3.5 years or less that it holds for longer duration securities. We expect further easing in Q3. Over and above the volatile global economic environment, there is a strong domestic fundamental case for Fed easing: Weak jobs data (69k in April, 77k in March), downward revisions to GDP (1.9% Q/Q SAAR in Q1), and weak CPI (1.7% y/y in May). Incremental easing could take the form of further quantitative easing and/or an extension of the period during which the FOMC believes that the Fed Funds Rate will be held between 0-0.25%.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	July 5, 2012	0.75	0.75
Bank of England – Bank Rate	0.50	July 5, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 13, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	July 13, 2012	8.00	8.00
Hungarian National Bank – Base Rate	7.00	July 24, 2012	7.00	--
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	July 19, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.50	July 4, 2012	1.50	1.50
Norges Bank – Deposit Rate	1.50	August 29, 2012	1.50	--

We anticipate a 25 basis point reduction in the main refinancing rate by the European Central Bank (ECB) at the policy meeting on July 5th, a move which will bring the rate to a record-low 0.75%. With another EU summit coming to a close (the 20th since the euro crisis began) without a fully adequate set of policy solutions, the onus seems once again to be on the ECB to preclude a worse-case scenario from materializing in financial markets and, by corollary, in the real economy. Recent relief on the inflation front (inflation eased further to 2.3% y/y in June) reinforces the case for a rate cut. We do not discount the possibility of a half-point cut, though we consider this far less likely. The Bank of England (BoE) is expected to boost its quantitative easing (QE) program with another GBP 50 billion in announced bond purchases after its next policy-setting meeting on July 5th. The tone among members of the BoE's Monetary Policy Committee has turned more dovish over the last several weeks as the economic situation has deteriorated, with 4 of 9 members voting for an increase in QE at the last meeting (including Governor King). The Riksbank will likely leave Sweden's benchmark interest rate at 1.50% on July 4th. Economic and financial market developments since the last meeting in April have transpired largely as envisioned, with relatively resilient domestic activity offset by a weakened external environment. Very low inflation (1.0% y/y) affords the bank some scope to loosen policy further should the euro crisis intensify materially in the months ahead.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	July 12, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.50	July 3, 2012	3.50	3.50
Reserve Bank of New Zealand – Cash Rate	2.50	July 25, 2012	2.50	--
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	July 31, 2012	7.75	--
Bank of Korea – Bank Rate	3.25	July 11, 2012	3.25	--
Bank of Thailand – Repo Rate	3.00	July 25, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	July 12, 2012	5.75	5.75

After reducing the benchmark cash rate by a cumulative 75 basis points – to the current level of 3.50% - at its last two meetings, we expect the Reserve Bank of Australia (RBA) to leave the rate unchanged at its next meeting on July 3rd. Further monetary easing is likely in store in the months ahead, but the RBA will wait until the second-quarter inflation report is released later in July before making another move. Moreover, the minutes from the last meeting show that despite market expectations, the decision to cut rates was not a certainty, but rather followed a "finely balanced" discussion of domestic economic resistance in the face of global softening.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.50	July 11, 2012	8.00	--
Banco Central de Chile – Overnight Rate	5.00	July 12, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	5.25	TBA	5.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	July 12, 2012	4.25	4.25

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	July 19, 2012	5.50	--

Forecasts at time of publication.
Source: Bloomberg, Scotia Economics.

Forecasts as at June 6, 2012*	2000-10	2011	2012f	2013f	2000-10	2011	2012f	2013f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	4.0	3.2	3.7				
Canada	2.2	2.4	2.0	2.1	2.1	2.9	2.1	2.1
United States	1.8	1.7	2.1	2.3	2.5	3.1	2.3	2.1
Mexico	2.1	4.2	3.7	3.6	4.9	3.8	3.9	4.1
United Kingdom	2.0	0.7	0.4	1.7	2.1	4.2	2.9	2.6
Euro Zone	1.4	1.5	-0.6	0.7	2.1	2.7	2.0	1.9
Japan	0.9	-0.7	2.1	1.7	-0.3	-0.2	0.1	0.3
Australia	3.1	2.0	3.1	3.4	3.1	3.1	2.5	2.8
China	9.4	9.3	8.0	8.5	2.3	4.1	4.0	4.4
India	7.6	10.0	6.0	6.5	6.4	7.7	6.5	6.8
South Korea	4.6	3.6	3.4	4.2	3.1	4.8	3.3	3.0
Thailand	4.4	5.7	5.0	4.5	2.7	3.5	3.0	2.8
Brazil	3.7	2.7	2.4	3.6	6.6	6.5	5.5	5.0
Chile	4.6	6.1	5.1	5.6	3.4	4.4	3.2	3.1
Peru	5.5	7.0	6.3	6.2	2.4	4.7	3.0	3.0

Central Bank Rates (%, end of period)	12Q1	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.75	3.50	3.25	3.00	3.00	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.05	1.02	0.99	0.98	0.97	0.97	0.96
Canadian Dollar (CADUSD)	1.00	0.95	0.98	1.01	1.02	1.03	1.03	1.04
Euro (EURUSD)	1.33	1.22	1.23	1.23	1.22	1.22	1.21	1.21
Sterling (GBPUSD)	1.60	1.56	1.59	1.60	1.62	1.63	1.64	1.64
Yen (USDJPY)	83	79	81	83	84	85	86	87
Australian Dollar (AUDUSD)	1.03	0.96	0.99	1.02	1.04	1.04	1.05	1.05
Chinese Yuan (USDCNY)	6.3	6.4	6.3	6.3	6.3	6.2	6.2	6.1
Mexican Peso (USDMXN)	12.8	13.8	13.3	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	2.00	1.96	1.95	1.92	1.87	1.88	1.90

Commodities (annual average)	2000-10	2011	2012f	2013f
WTI Oil (US$/bbl)	54	95	95	98
Brent Oil (US$/bbl)	52	111	108	108
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.50	2.75
Copper (US$/lb)	1.93	4.00	3.60	3.45
Zinc (US$/lb)	0.75	0.99	0.89	1.10
Nickel (US$/lb)	7.36	10.38	7.93	8.00
Gold, London PM Fix (US$/oz)	586	1,569	1,650	1,600
Pulp (US$/tonne)	694	977	875	915
Newsprint (US$/tonne)	575	640	650	670
Lumber (US$/mfbm)	273	255	265	310

[1] World GDP for 2000-10 are IMF PPP estimates; 2011-13f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.

[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

* See Scotia Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

Canada	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	2.4	1.9	1.9		
Current Acc. Bal. (C$B, ar)	-48.4	-38.7	-41.1		
Merch. Trade Bal. (C$B, ar)	2.3	14.9	7.9	-4.4	(Apr)
Industrial Production	3.5	3.0	1.0	0.0	(Mar)
Housing Starts (000s)	193	199	206	211	(May)
Employment	1.6	1.2	0.9	1.3	(May)
Unemployment Rate (%)	7.5	7.5	7.4	7.3	(May)
Retail Sales	4.1	4.2	4.3	3.4	(Apr)
Auto Sales (000s)	1588	1603	1701	1603	(Apr)
CPI	2.9	2.7	2.3	5.1	(May)
IPPI	4.6	3.9	1.7	-0.4	(Apr)
Pre-tax Corp. Profits	15.4	13.7	5.4		

Mexico					
Real GDP	3.9	3.9	4.6		
Current Acc. Bal. (US$B, ar)	-9.0	-7.5	-0.2		
Merch. Trade Bal. (US$B, ar)	-1.5	-2.9	7.1	6.7	(Apr)
Industrial Production	4.0	3.5	4.4	3.6	(Apr)
CPI	3.4	3.5	3.9	7.3	(May)

Chile					
Real GDP	6.0	4.5	5.6		
Current Acc. Bal. (US$B, ar)	0.0	-5.1	-1.4		
Merch. Trade Bal. (US$B, ar)	10.0	9.4	11.1	-1.8	(May)
Industrial Production	6.9	2.1	3.9	2.8	(May)
CPI	3.3	4.0	4.1	3.1	(May)

Germany					
Real GDP	3.1	2.0	1.2		
Current Acc. Bal. (US$B, ar)	204.1	256.1	215.8	176.7	(Apr)
Merch. Trade Bal. (US$B, ar)	216.2	224.1	223.3	255.4	(Apr)
Industrial Production	8.0	3.4	1.0	-0.7	(Apr)
Unemployment Rate (%)	7.1	6.9	6.8	6.7	(May)
CPI	2.3	2.3	2.2	4.2	(May)

Euro Zone					
Real GDP	1.5	0.7	-0.1		
Current Acc. Bal. (US$B, ar)	-4	183	-37	26	(Apr)
Merch. Trade Bal. (US$B, ar)	6.4	76.9	10.1	94.2	(Apr)
Industrial Production	3.6	-0.1	-1.5	-2.5	(Apr)
Unemployment Rate (%)	10.1	10.5	10.8	11.0	(Apr)
CPI	2.7	2.9	2.7	5.2	(May)

Japan					
Real GDP	-0.7	-0.5	2.7		
Current Acc. Bal. (US$B, ar)	119.2	48.0	114.5	49.2	(Apr)
Merch. Trade Bal. (US$B, ar)	-33.4	-75.3	-73.5	-98.9	(May)
Industrial Production	-2.3	0.0	2.7	12.9	(Apr)
Unemployment Rate (%)	4.6	4.5	4.5	4.6	(Apr)
CPI	-0.3	-0.3	0.3	0.5	(Apr)

China					
Real GDP	10.4	8.9			
Current Acc. Bal. (US$B, ar)	201.7				
Merch. Trade Bal. (US$B, ar)	155.0	193.0	3.5	224.4	(May)
Industrial Production	12.8	12.8	9.3	9.6	(May)
CPI	4.1	4.1	3.6	3.0	(May)

United States	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	1.7	3.0	1.9		
Current Acc. Bal. (US$B, ar)	-466	-475	-549		
Merch. Trade Bal. (US$B, ar)	-738	-757	-778	-778	(Apr)
Industrial Production	4.1	4.0	4.0	4.9	(May)
Housing Starts (millions)	0.61	0.68	0.71	0.71	(May)
Employment	1.1	1.3	1.6	2.1	(May)
Unemployment Rate (%)	9.0	8.7	8.3	8.2	(May)
Retail Sales	8.2	7.5	6.4	14.3	(May)
Auto Sales (millions)	12.7	13.4	14.5	13.7	(May)
CPI	3.2	3.3	2.8	5.4	(May)
PPI	6.0	5.4	3.4	8.3	(May)
Pre-tax Corp. Profits	4.2	9.3	13.9		

Brazil					
Real GDP	2.5	1.2	0.6		
Current Acc. Bal. (US$B, ar)	-52.5	-63.2	-48.3		
Merch. Trade Bal. (US$B, ar)	29.8	27.0	9.8	35.4	(May)
Industrial Production	0.4	-1.7	-3.2	-2.7	(Apr)
CPI	6.8	6.7		6.6	(Jan)

Italy					
Real GDP	0.5	-0.5	-1.4		
Current Acc. Bal. (US$B, ar)	-0.07	-0.03	-0.07	-0.02	(Apr)
Merch. Trade Bal. (US$B, ar)	-34.2	-8.3	-17.5	-3.2	(Apr)
Industrial Production	0.2	-3.2	-5.4	-8.8	(Apr)
CPI	2.8	3.3	3.4	6.0	(May)

France					
Real GDP	1.7	1.2	0.3		
Current Acc. Bal. (US$B, ar)	-60.1	-58.2	-53.2	-66.2	(Apr)
Merch. Trade Bal. (US$B, ar)	-50.9	-45.9	-53.0	-52.9	(Apr)
Industrial Production	2.4	0.4	-1.5	0.9	(Apr)
Unemployment Rate (%)	9.7	9.8	10.1	10.2	(Apr)
CPI	2.1	2.4	2.3	4.1	(May)

United Kingdom					
Real GDP	0.8	0.6	-0.2		
Current Acc. Bal. (US$B, ar)	-46.5	-40.7	-76.4		
Merch. Trade Bal. (US$B, ar)	-159.8	-152.5	-160.3	-194.1	(Apr)
Industrial Production	-1.2	-3.0	-3.0	-1.0	(Apr)
Unemployment Rate (%)	8.1	8.4	8.2	8.2	(Mar)
CPI	4.5	4.7	3.5	7.2	(May)

Australia					
Real GDP	2.1	2.5	4.3		
Current Acc. Bal. (US$B, ar)	-33.1	-39.4	-66.0		
Merch. Trade Bal. (US$B, ar)	35.7	29.0	2.3	33.8	(Apr)
Industrial Production	-1.1	1.3	4.7		
Unemployment Rate (%)	5.1	5.2	5.2	5.1	(May)
CPI	3.4	3.1	1.6		

South Korea					
Real GDP	3.6	3.3	2.8		
Current Acc. Bal. (US$B, ar)	26.5	46.0	10.2	21.3	(Apr)
Merch. Trade Bal. (US$B, ar)	30.8	36.6	5.8	27.1	(May)
Industrial Production	6.9	5.2	2.9	2.8	(Apr)
CPI	4.0	4.0	3.0	6.6	(May)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	11Q4	12Q1	Jun/22	Jun/29*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	0.80	0.91	0.88	0.88
10-yr Gov't Bond	1.94	2.11	1.81	1.73
30-yr Gov't Bond	2.49	2.66	2.36	2.33
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	65.7	69.2	68.5	(May)

United States	11Q4	12Q1	Jun/22	Jun/29*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.01	0.07	0.08	0.08
10-yr Gov't Bond	1.88	2.21	1.67	1.64
30-yr Gov't Bond	2.89	3.34	2.76	2.74
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	136.9	138.0	137.8	(May)

Germany	11Q4	12Q1	Jun/22	Jun/29*
3-mo. Interbank	1.35	0.71	0.55	0.53
10-yr Gov't Bond	1.83	1.79	1.58	1.59
FX Reserves (US$B)	66.9	67.9	68.3	(May)

France	11Q4	12Q1	Jun/22	Jun/29*
3-mo. T-bill	-0.06	0.07	0.02	0.04
10-yr Gov't Bond	3.15	2.89	2.60	2.70
FX Reserves (US$B)	48.6	49.2	49.6	(May)

Euro Zone	11Q4	12Q1	Jun/22	Jun/29*
Refinancing Rate	1.00	1.00	1.00	1.00
Overnight Rate	0.63	0.39	0.33	0.33
FX Reserves (US$B)	316.7	319.9	322.6	(May)

United Kingdom	11Q4	12Q1	Jun/22	Jun/29*
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.37	0.37	0.37	0.37
10-yr Gov't Bond	1.98	2.20	1.72	1.74
FX Reserves (US$B)	79.3	82.4	84.6	(May)

Japan	11Q4	12Q1	Jun/22	Jun/29*
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.13	0.13	0.13	0.13
10-yr Gov't Bond	0.99	0.99	0.83	0.84
FX Reserves (US$B)	1258.2	1247.8	1239.4	(May)

Australia	11Q4	12Q1	Jun/22	Jun/29*
Cash Rate	4.25	4.25	3.50	3.50
10-yr Gov't Bond	3.67	3.98	3.05	3.04
FX Reserves (US$B)	42.8	47.7	47.8	(May)

Exchange Rates (end of period)

	11Q4	12Q1	Jun/22	Jun/29*		11Q4	12Q1	Jun/22	Jun/29*
USDCAD	1.02	1.00	1.02	1.02	¥/US$	76.91	82.87	80.43	79.81
CADUSD	0.98	1.00	0.98	0.98	US¢/Australian$	1.02	1.03	1.01	1.02
GBPUSD	1.554	1.601	1.559	1.569	Chinese Yuan/US$	6.30	6.30	6.36	6.35
EURUSD	1.296	1.334	1.257	1.268	South Korean Won/US$	1152	1133	1157	1145
JPYEUR	1.00	0.90	0.99	0.99	Mexican Peso/US$	13.936	12.811	13.862	13.435
USDCHF	0.94	0.90	0.96	0.95	Brazilian Real/US$	1.867	1.827	2.067	2.021

Equity Markets (index, end of period)

	11Q4	12Q1	Jun/22	Jun/29*		11Q4	12Q1	Jun/22	Jun/29*
United States (DJIA)	12218	13212	12641	12818	U.K. (FT100)	5572	5768	5514	5595
United States (S&P500)	1258	1408	1335	1353	Germany (Dax)	5898	6947	6263	6382
Canada (S&P/TSX)	11955	12392	11436	11565	France (CAC40)	3160	3424	3091	3174
Mexico (Bolsa)	37078	39521	39072	40135	Japan (Nikkei)	8455	10084	8798	9007
Brazil (Bovespa)	56754	64511	55440	53971	Hong Kong (Hang Seng)	18434	20556	18995	19441
Italy (BCI)	806	859	750	723	South Korea (Composite)	1826	2014	1847	1854

Commodity Prices (end of period)

	11Q4	12Q1	Jun/22	Jun/29*		11Q4	12Q1	Jun/22	Jun/29*
Pulp (US$/tonne)	890	870	900	900	Copper (US$/lb)	3.43	3.85	3.32	3.45
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.83	0.91	0.82	0.84
Lumber (US$/mfbm)	261	266	292	283	Gold (US$/oz)	1531.00	1662.50	1565.50	1598.50
WTI Oil (US$/bbl)	98.83	103.02	79.76	82.11	Silver (US$/oz)	28.18	32.43	26.81	27.08
Natural Gas (US$/mmbtu)	2.99	2.13	2.63	2.78	CRB (index)	305.30	308.46	267.97	279.42

** Latest observation taken at time of writing.*
Source: Bloomberg, Scotia Economics.

Emerging Markets Strategy

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